Frequently Asked Questions

Tax Increment Financing

Downtown Development Authorities, P.A. 197 of 1975 (DDA)
Tax Increment Finance Authority, P.A. 450 of 1980 (TIFA)
Local Development Financing Authority, P.A. 281 of 1986 (LDFA)

These FAQs do not address Brownfield Redevelopment Authorities (P.A. 381 of 1996) or LDFA Certified Technology Parks.

1. What is the difference between TIF and TIFA?

TIF, Tax Increment Financing, is a financing tool
TIFA is the Tax Increment Financing Authority under P.A. 450 of 1980.

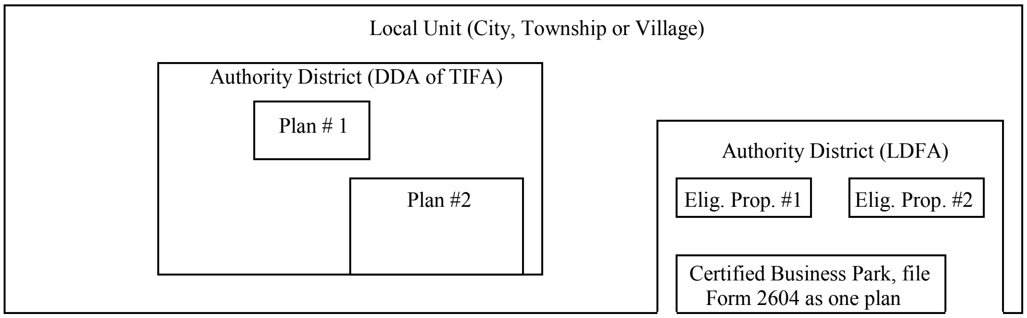
Tax increment financing is used by:
DDA (P.A. 197 of 1975)
TIFA (P.A. 450 of 1980)
LDFA (P.A. 281 of 1986)
Browndfields (P.A. 381 of 1996)

It is important to know which authority you have, so you know which act applies. If your community has been referring to its DDA as a TIFA, this can cause confusion.

2. What is the difference between an authority district and a plan?

First, the local unit establishes an authority (DDA, LDFA, TIFA) with a specific geographic district, and appoints an authority board.
Then, the board writes a development plan (and usually a tax increment financing (TIF) plan to fund it) for a specific geographic area within the district, but plans may not overlap. (Overlap information does not apply to Brownfields and certified technology parks.) The development plan and TIF plan must be adopted by the local unit before the plans are valid.

DDA Mills are levied within the district boundaries. DDAs and TIFAs capture property within the plan boundaries. LDFAs capture within each eligible property, or within a certified business park (formerly called a "certified industrial park"), or certified technology park.



3. What is "capture"?

Tax increment financing is often referred to as "capture."

For example, if the "initial" year (same as "base" year) value for the plan is $1,000,000 and the second year, the value is $1,250,000, then the authority gets to "capture" the property taxes on the increased value, (i.e., the "tax increment") of $250,000.

Current Value = $1,250,000   Initial Value = $1,000,000   Captured Value = $250,000

4. How do we form an authority; how to we amend a plan; etc.?

Some property tax division suggestions for TIF activities:

1. Involve your attorney for all legal matters.

2. Obtain and thoroughly read a copy of the latest public act (DDA, TIFA or LDFA) from the State Law Library. There is a small charge for this service

State Law Library	Telephone: 517-373-0630
525 West Ottawa	Fax: 517-373-3915
PO Box 30007	Email: lmlawlib@libofmich.lib.mi.us
Lansing, MI 48909	

3. All agreements should be in writing. If an agreement or resolution is not clear, make it clear. If you are not sure whether you need to meet a given requirement in the law, you probably need to meet it. Cover yourself legally. Do business in a businesslike manner—in writing. If the authority agrees to do something, be sure the DDA, LDFA or TIFA authority passes the resolution or signs the agreement, not just the municipality. Remember that the DDA, LDFA or TIFA authority and the municipality are two separate legal entities.

5. May TIF plans capture debt millage?

The law prohibits LDFAs from capturing any debt millage, including school debt. DDAs and TIFAs are not prohibited from capturing non-school debt millage, but they may voluntarily agree not to capture debt millage.

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6. Which taxes are considered "school taxes"?

1. Local school district taxes, including school debt;
2. Intermediate school district (ISD) taxes; and
3. State Education Tax (SET)

7. Can school taxes be captured after Proposal A?

Only to the extent they are necessary to make required payments on "eligible obligations", "eligible advances" or "other protected obligations." See the DDA, TIFA and LDFA public acts and the Michigan Department of Treasury Form 2604, *Tax Increment Plan Report for Capture of Property Taxes and State Reimbursement Amount*, for details.

Please note that the plan may not capture a greater proportion of school operating taxes than the proportion of municipal operating or county operating taxes captured.

8. Can non-school taxes be captured after Proposal A?

Yes, as long as the captured taxes are spent for purposes allowed under the DDA, TIFA and LDFA public acts and the tax increment financing plan.

For new authorities, or for amended district boundaries, for which the required public hearing was held after February 15, 1994, the various taxing jurisdictions must be notified and any taxing jurisdiction may opt out of having its taxes captured by the authority. (See Question 23)

9. What is my plan number?

The number assigned by the local unit or by the authority. The authority may use any coding system it wishes (e.g., 1, 2, 3; East, West; etc.). However, the authority must use the coding system consistently across years.

10. What reports do we need to file annually to the State Tax Commission?

1. Form 2604 or Form 2967 (*Tax Increment Plan Report for Capture of Property Taxes and State Reimbursement Amount*)
   Form 2604 is for plans that have only one school district. Form 2967 is for plans that capture from two or more school districts.

   Plus, for 1994, you were required to submit the following:

   A. Copy of relevant parts of the plan (see the form instructions);
   B. Copy of the obligation documents (bonds, contracts, etc., see the form instructions); and
   C. Copy of payment schedules for the full term of the obligations/advances.

2. Annual Report (AR) as required by the State Tax Commission Bulletin 9 of 1997 (see appendix 3 of instructions for Forms 2604 and/or 2967).

3. A copy of the assessor's or treasurer's worksheet (ATW) for the authority's tax increment financing plan district, which was used to determine the plan's tax increment revenue. This is the worksheet that was used to computer how much money to send to the authority and it may be either handwritten or computed. The worksheet should include:

   A. Millages;
   B. Initial, current, and captured values by property tax roll (i.e., ad valorem homestead, ad valorem nonhomestead, IFT new, CFT new, Tech Park, IFT replacement and CFT restored); and
   C. The source of tax increment revenue, subdivided by each millage levied.

11. How do I get a form for Bulletin 9's Annual Report?

There is no form. Ask for a copy of the State Tax Commission Bulletin 9 of 1997 with the accompanying "City of Example." Call the Property Tax Division at (517) 241-2029 to request this bulletin. The bulletin is included in Forms 2604 and 2967instructions as appendix 3.

12. Why can't you use our audited financial statements as our annual report?

The information provided in each is different in many respects. The annual report is mandated by law and DDAs are required to publish their annual report in a newspaper.

State Tax Commission Bulletin 9 of 1997 describes the annual report in details and lists the additional information the State Tax Commission requires beginning with 1997.

13. If we do capture school taxes and are not asking the State for reimbursement, do we have to complete Form 2604 (or Form 2967)?

Yes.

14. If we don't capture school taxes and are not asking the State for reimbursement, do we have to complete Form 2604 (or Form 2967)?

Please fill our the first identification page of Form 2604 or 2967, and check either the "yes, but" box or the "no" box if appropriate. Then complete the rest of the page, sign it and send it to the Department of Treasury. If we do not hear from you, we have no way to clear your file for that year. Remember that all plans (whether or not capturing taxes) must submit the required annual report described in State Tax Commission Bulletin 9 of 1997. Once we have audited your file, we will notify you when you no longer are required to file Form 2604 or 2967.

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15. Can we exclude personal property taxes from capture?

No. Plans may exclude certain mills from capture, such as debt mills, but may not exclude any property. DDAs and TIFAs may exclude value increases due to inflation, however you must include **all** real and personal property.

16. Can we exclude homesteads from capture?

No.

17. What is "other revenue pledged" in Step 7 of Form 2604 and Form 2967?

This means "Other than the captured taxes, any other money that was promised for making payments on the obligations you claimed in Step 3 and Step 4 of Form 2604 or Form 2967." This does **not** include "full faith and credit" pledges by the municipality.

18. We made a mistake on our submitted form (or the values have changed), what should we do?

Submit an amended form. For value changes, submit an amended Step 2 and we will adjust the computation. You may submit a photocopy of your original page with the corrections marked in red. Write "Amended" in large red letters at the top of the page.

19. The authority is inactive, what should we do?

The local unit should review to see if the authority should be or has been dissolved. If so, submit a copy of the resolution (TIFA or LDFA) or ordinance (DDA) that dissolved the authority. As long as the authority exists, it is required to submit all appropriate reports.

20. What if we don't have this authority and never did?

Please contact us and we will research our information. Some communities have been surprised to discover the existence of long-forgotten authorities.

21. What is the "initial year" on Step 2 of Form 2604 and Form 2967?

In most cases, if the tax increment financing plan was approved before the 4th Monday in May, the initial year is the year **before** the year the plan was approved. If the plan was approved after the 4th Monday in May, the initial year is the year the plan was approved.

The 4th Monday in May is when the State Tax Commission adopts final State equalization.

22. Who is responsible for completing Form 2604 or Form 2967?

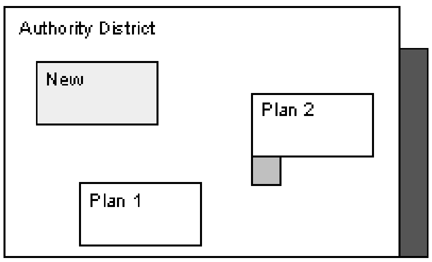
Under the law, the authority is required to complete a form for each plan. The local unit assessor, treasurer and other officials may be called upon to assist the authority in completing this form. In some communities, the assessor, treasurer or manager is the contact person for the authority.

23. What is "Opt Out"?

The opt out provision is provided in the acts (DDA, TIFA or LDFA). These provisions only apply to public hearings for the formation of new authorities and for the amending of authority district boundaries. The municipality must notify the affected taxing jurisdictions. (To notify the State, send notification to: Property Tax Division, Michigan Department of Treasury, PO Box 30471, Lansing, MI 48909-7971.) The taxing jurisdictions may opt-out as follows:

- The DDA Act states, "Not more than 60 days after a public hearing held after February 15, 1994, the governing body of a taxing jurisdiction levying ad valorem taxes that would otherwise be subject to capture may exempt its taxes from capture by adopting a resolution to that effect and filing a copy with the clerk of the municipality proposing to create the authority."

- The LDFA Act states, "Not more than 60 days after a public hearing held after February 15, 1994, the governing body of **a taxing jurisdiction** with millage that would otherwise be subject to capture **may exempt its taxes** from capture by adopting a resolution to that effect and filing a copy with the clerk of the municipality proposing to create the authority.



The opt out provision **does** apply to **new authorities** or to **amending the authority district boundaries**

The opt out provision includes ad valorem taxes and specific taxes (e.g., Industrial Facilities Tax). When DDA or LDFA authority district boundaries are being expanded, the opt-our provision only applies to the area being added to the district. If a taxing unit exempts its millage from capture in an added area, the captured value for that taxing unit's millage will be calculated excluding the added area. The captured value for the other millages will be calculated including the added area.

The opt out provision **does not** apply to:

- Amending plan projects without expanding authority district boundaries
- Amending the duration of the plan without expanding authority district boundaries
- Amending the boundaries of a DDA plan's development area, within the existing DDA district boundaries
- A new DDA plan within the existing DDA district boundaries
- The amendment to an LDFA development plan or tax increment finance plan within existing LDFA district boundaries.

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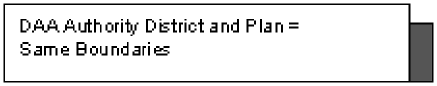
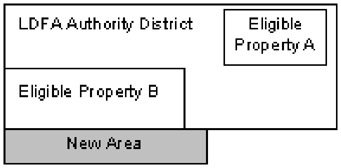


When a DDA is expanding the boundaries of both its authority district and a plan's development area, the authority may capture taxes from the revised development area, including the property added to the authority district and the development area, except that:

- If a taxing jurisdiction exempts its millage (opts out) from capture in the added area, its taxes may not be captured from the added area;
- The capture of school taxes from the revised development area is subject to the act's limitations on capturing school taxes.



When an LDFA expands its authority **district**, non-school taxes from the new area may be captured unless the taxing jurisdictions opt out. If the added area is an expansion of a certified business park (formerly called a certified industrial park) located in the LDFA district, and if the taxing jurisdictions do not opt out, the plan may also capture school taxes from the entire certified business park, subject to the act's limitations on capturing school taxes for eligible property in the certified business park. Also see Question 24.

24. If an LDFA plan contains more than one eligible property, how does it complete Form 2604?

For LDFA properties located within a certified business park (formerly called a certified industrial park), an LDFA should file a single report for all eligible property within that park. For LDFA eligible property not located within a certified business park, the LDFA must file a separate Form 2604 for **each** eligible property.

25. Can a DDA or TIFA plan spend revenue outside of its development area?

According to state law, the plan may spend revenue only for projects described in the development plan and/or tax increment financing plan, and the projects must be allowable under the law. The revenue must be spent for the benefit of the development area. Revenue of one plan may not be used to pay an obligation or expense of another plan.

The State Tax Commission's policy is that revenue must also be spent on improvements or properties located **in** the plan's development area. The STC will enforce this policy on a prospective basis as of April 14, 1998, but not retroactively. After April 14, 1998, a plan may not start any new projects outside of that plan's development area. The STC **may** waive this requirement for certain infrastructure improvements made in the development plan that must extend outside the development area's boundaries.

Note: LDFAs are not included here because section 12(2) of the Local Development Financing Act (PA 281) has specific provisions regarding restrictions on the use of tax increment revenue.

26. How do I report initial value? How do I report current value?

The STC has ruled that the initial value of the property is reported on the tax roll on which it was assessed in the initial year. The current value of property is reported on the tax roll on which it was assessed in the current year.

For **initial** value, show SEVs for properties included in a plan before May 22, 1995, and show taxable values for properties added to a plan after May 22, 1995. All values should be reported at 100% (including IFT, CFT and Tech Park properties).

Note that **initial** values will usually remain the same from year to year after the plan is begun. The initial values will change only if the boundaries of the development area were amended, if there was a Board of Review change, or if there was a Tax Tribunal change affecting the initial year.

See the following examples.

Example 1: Real property that has switched tax rolls sine the initial year:
IFT property initial value $200,000
Certificate expired, so current value of $250,000 moves to the ad valorem non-homestead roll:

	Initial Value	Current Value	Captured Value
Ad Valorem Roll, ABC Company	0	250,000	250,000
IFT Roll, ABC Company	200,000	0	<200,000>
Example 2: Personal property that's been removed from the premises:			
Ad Valorem Roll, XYZ Equipment	500	0	<500>
Example 3: Personal Property that is new			
Ad Valorem Roll, MMM Equipment	0	400	400

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27. Do we calculate captured value property-by-property or roll-by-roll (for Step 2 of Form 2604/2967)?

Calculate captured value roll-by-roll. You will still need the base year value and the current year value for each parcel in the plan, but you should add them roll-by-roll and then calculate the captured value for each roll.

Example:

	Parcel	Base Year	Current Year	Captured Value
Homestead Property	A	$100	$175	
	B*	+ $25	+ $0	
Homestead ad Valorem Roll		**$125**	**$175**	**$50**
Non-homestead Real	B*	$0	$50	
	C	$75	$125	
	D	$95	$90	
Personal Property	E**	$35	$0	
	F	+ $80	+ $105	
Non-homestead ad Valorem Roll		**$285**	**$370**	**$85**
IFT New, post-1993	G	$0	$205	
	H	+ $0	+ $400	
IFT New, post-1993 Roll		**$0**	**$605**	**$605**

*Note that parcel B switched rolls (see Question 26).
**Parcel E, Personal Property, was removed from the area after the initial year.

Once these values are calculated roll-by-roll, you must compute the captured taxes by tax roll. Do now net the roll values together Doing so would give you an incorrect calculation because each roll is taxed at a different rate.

28. Why are you auditing my plan?

We audit every plan to verify/determine school tax capture and state reimbursement eligibility

29. What are the audit procedures?

Audits of Form 2604/2967 are done in Lansing. We many call or write you for missing information or additional information as needed. Your prompt response will assist us in completing your audit in a timely manner. Some plans are being very slow to respond. The passage of time will only magnify the effect of errors. Forms are being reviewed in the order in which the plans respond to our correspondence.

Once we have completed our review of your form and documentation, you will receive an "initial audit determination" letter for each year we have completed. You will have time to review it and submit any additional documentation that you want considered. Be sure to watch time deadlines, as indicated by the STC policy below:

On October 11, 2000, the State Tax Commission adopted the following audit procedures concerning audits of Form 2604/2967, *Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount*. This procedure replaces all former information you may have received.

General information regarding Property Tax Division staff **initial** audits and the adoption of **final** Determinations by the State Tax Commission:

You have 30 days to respond to an initial **audit determination made by the Property Tax Division auditor.**

If you agree with the **initial** audit determination, please advise us of your agreement within 30 days a **final** audit determination will be adopted by the State Tax Commission and copies will be sent to affected parties. If the **final** audit determination directs you to return school taxes, please do so, following the directions in the determination letter. Submit proof of payment to he auditor [copy of the check and the cover letter(s) to the local unit(s)] so that the audit can be cleared.

If you do not agree with the **initial** audit:

- If you have additional documentation to submit for our review, you should do so within 30 days of the date of the **initial** audit determination, with a letter explaining why you disagree, or
- You may discuss your concerns with the Property Tax Division auditor within 30 days of the **initial** audit determination. The auditor will make every attempt to assist you and will direct you how to proceed. You must respond within any additional time allowed by the auditor
- If you do not respond within the time deadlines, a **final** audit determination will be adopted by the State Tax Commission without your input, and copies will be sent to affected parties.

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